THE INSURANCE CORPORATION OF BRITISH COLUMBIA

AN APPRAISAL

Prepared by

The Insurance Corporation of British Columbia

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PREFACE

Academic examinations of the Insurance Corporation's Autoplan Fund frequently ignore the most important reason for its being - the individual person.

Available published information suggests that the private sector, collectively, would have to charge B.C. motorists much more. For example, in 1983 alone, the private sector would have had to collect $221.5 million more than ICBC did to meet claim costs. That's about 30% more, and would have increased the average premium to $501, from the $380 that ICBC charged. (See page 1)

This is of particular note because ICBC, historically, has had to deal with the highest auto injury rate and one of the highest fatality rates in Canada. In 1983 B.C.'s fatality rate was 27% higher than the Canadian rate and 60% higher than Ontario's. B.C.'s injury rate in 1983 was 22% higher than the Canadian rate and 9% higher than Ontario's. (See page 2)

In addition, reference as to what should or should not be done with regard to premium taxes, income taxes, dividends, capital requirements, etc. ignore the pragmatic fact that there are significant, inherent advantages to the individual with a single, effective, compulsory auto insuring body that applies all of its income to claims and operating costs.

A brief outline of some pertinent factors is contained on the following pages. They are captioned as follows.

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1. ADMINISTRATIVE EFFICIENCY

A number of measures can be applied to gauge operational efficiencies.

a) The private sector's latest published information (1983) shows that collectively, they returned 74% of premium income in claim payments. In that year, claim costs in B.C. totalled $690 million. ICBC needed to collect $710.5 million in premiums to meet that commitment, while the private sector, using their own ratio of claims to premiums, would have needed $932 million. That is $221.5 million more or an average of an additional $121 to every policyholder.

b) In 1983, the Insurance Corporation wrote 717 policies for each employee on staff, compared to 514 policies per employee by one of the largest private auto insurance companies in Canada, about 30% less than ICBC. This same insurer reported $168,000 of premium income per employee, and while not strictly a measure of efficiency, it can be noted that ICBC wrote $265,000 per employee. Another top-five private insurer wrote $140,000 per employee in 1982. Saskatchewan Government Insurance wrote $217,000 per employee in 1983.

c) The expense ratio (an industry expression used to define the cost of doing business but not including claims and related costs) for the Insurance Corporation was 15% in 1983. Collectively, the private sector's auto-related expense ratio is much higher at 26%.

2. AUTO ACCIDENT COMPARISONS

a) Injury and Fatality Rates

ICBC must contend with the highest injury rate and one of the highest fatality rates in Canada. Only New Brunswick and Prince Edward Island have higher fatality rates. The fact that it does so with premiums that are as low as they are is a compelling indication of its performance.

The following two charts show the dramatic regional differences with regard to fatalities and injuries.

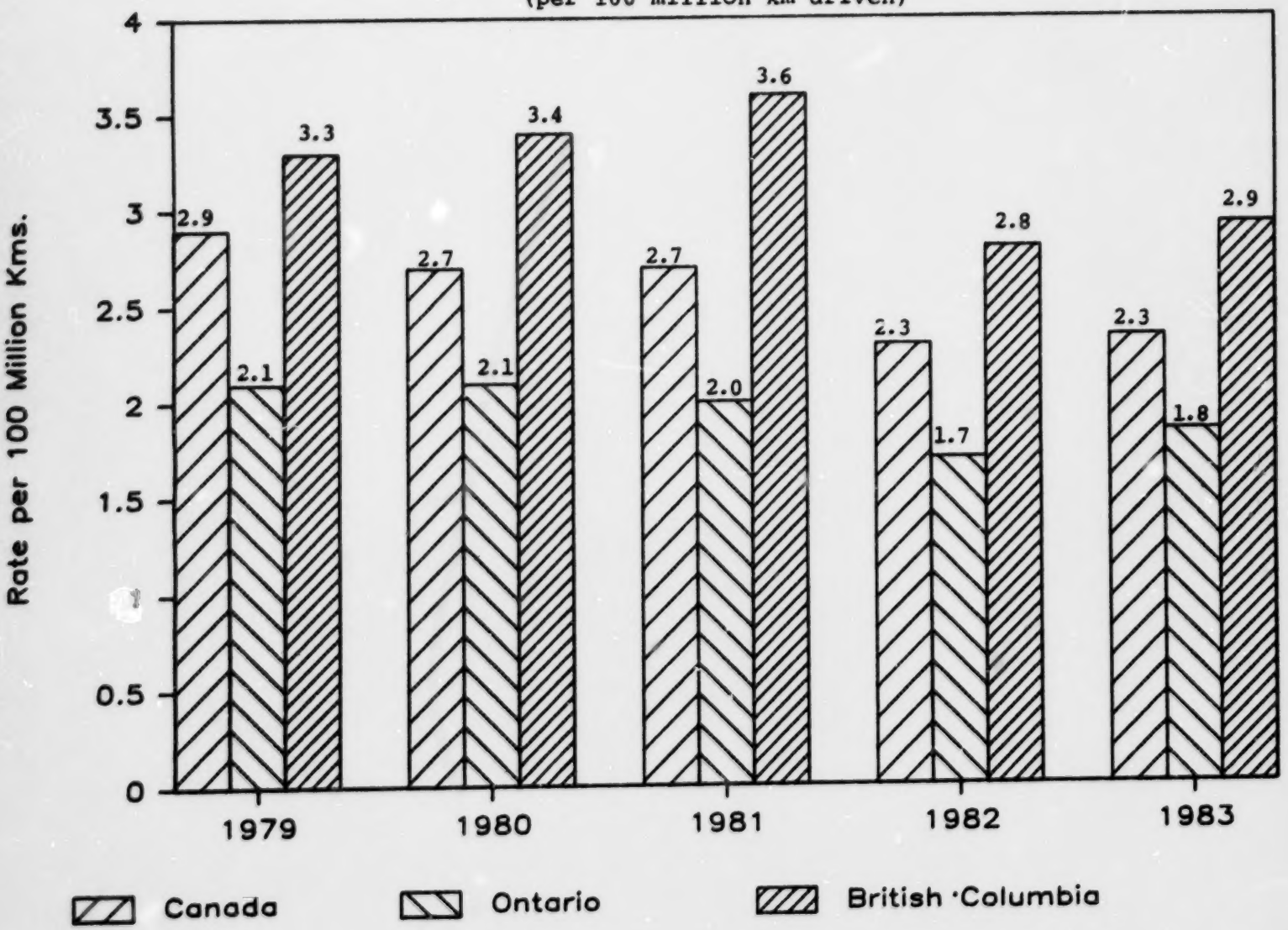
The first chart on page 3, Fatality Rates By 100 Million kms Driven, indicates that in the five years under study, Ontario is significantly lower than the national average and B.C. is significantly higher. When compared to Ontario, B.C.'s fatality rate has been at least 56% higher over the five years measured.

The second chart on page 4, Injury Rates Per 100 Million Vehicle km Driven, shows that while the gap is narrower, B.C. has been significantly higher than both the Canadian and Ontario averages. In 1981, B.C. was 31% higher than Ontario and in 1983 it had narrowed to 9%.

Regional differences in vehicle density, terrain, weather, population concentrations, road design, etc. should not be used. They simply describe the factors that contribute to the fatality and injury rates.

Fatality Rates

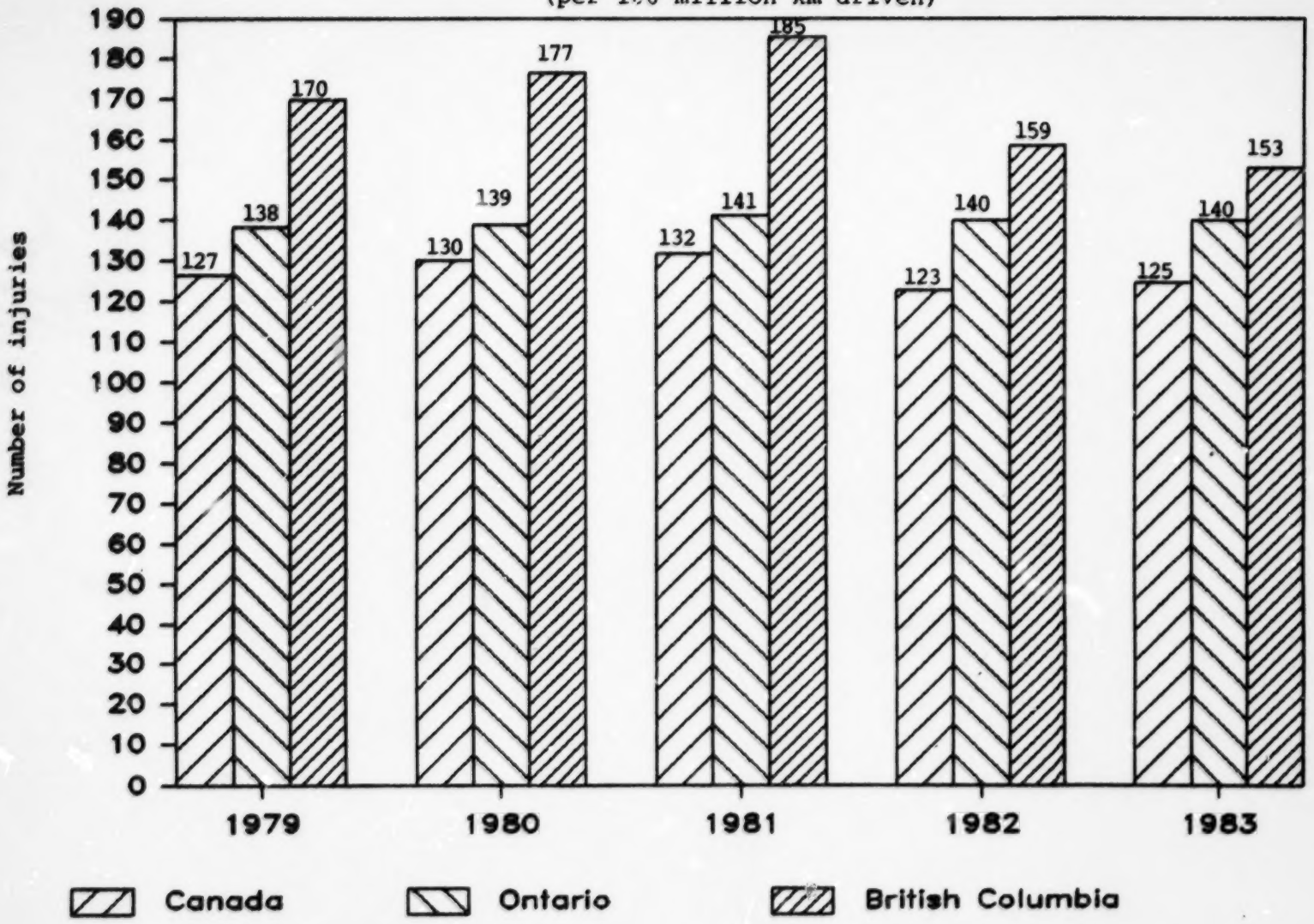
(per 100 million km driven)



(Source: Statistics Canada)

Injury Rates

(per 100 million km driven)



Source - Transport Canada

2. AUTO ACCIDENT COMPARISONS - Cont'd

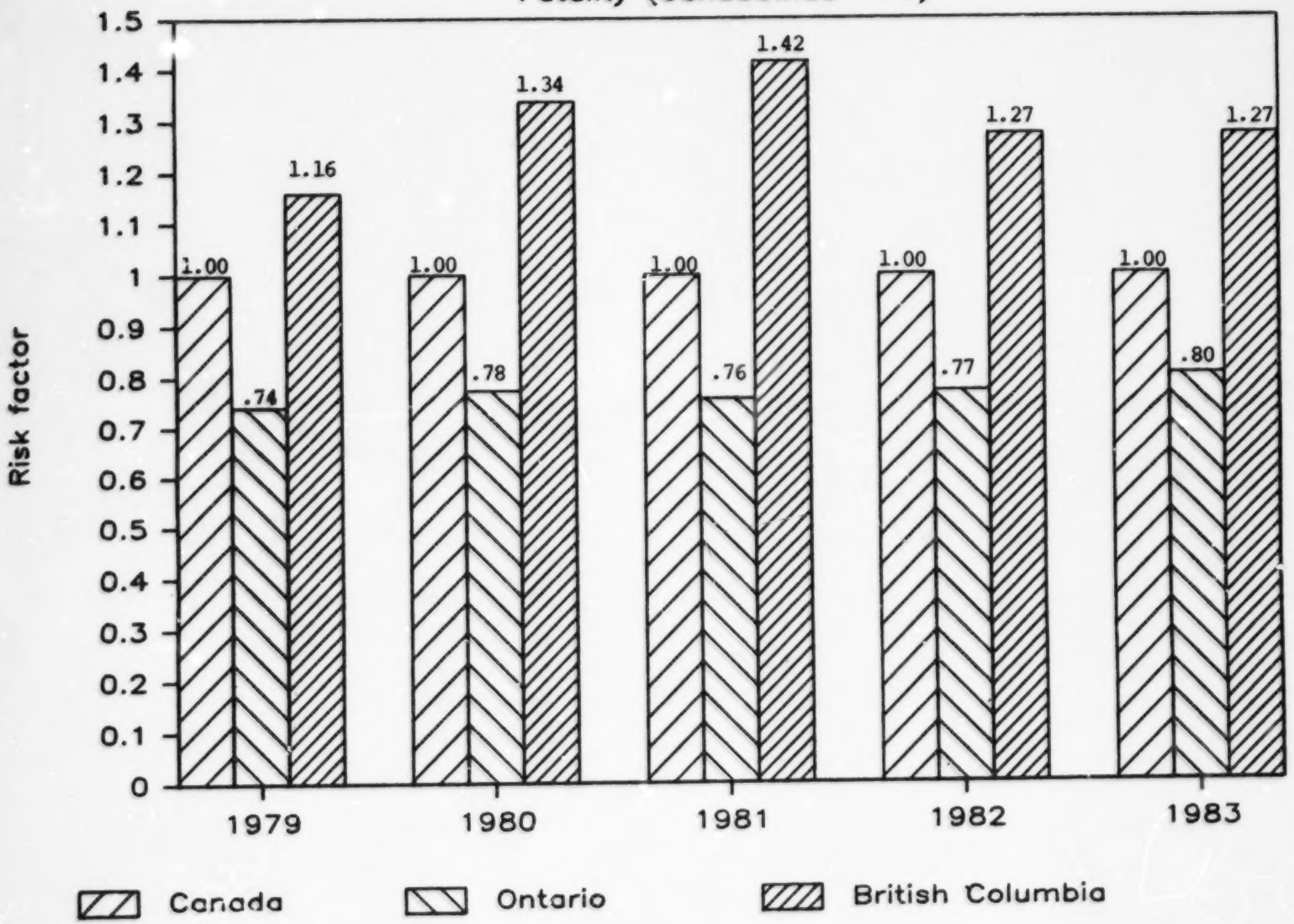
b) Underwriting Risk

While injury and fatality rates are valid measurements in the field of traffic safety, when insurance becomes involved it is necessary to extend the comparison to include the number of miles actually driven in the course of a year. This results in an underwriting risk factor, derived by dividing the number of fatalities and/or injuries per 100 million kilometers driven by the average number of kilometers driven per capita in each jurisdiction.

The relative underwriting risk is the product of the underwriting risk in each province divided by the underwriting risk in Canada. This is the true challenge faced by auto insurers in each jurisdiction. The five year charts (on pages 6 and 7) show that B.C. has experienced a greater risk factor in both fatalities and injuries.

Relative Underwriting Risk

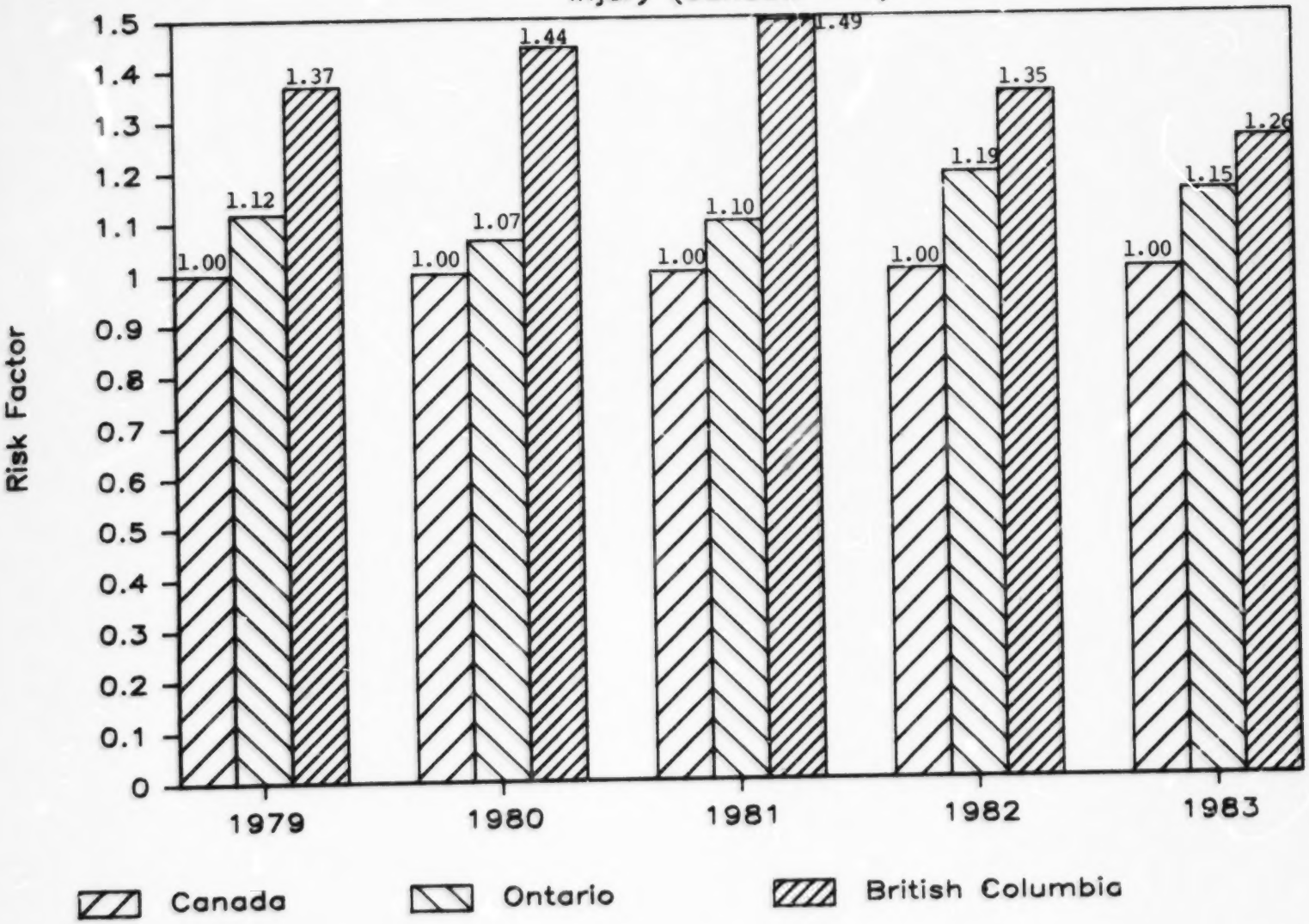
Fatality (Canadawide = 1)



(Source: Statistics Canada)

Relative Underwriting Risk

Injury (Canada = 1)



3. $175 MILLION GRANT

The Insurance Corporation's Autoplan Fund received a one-time grant of $175 million in 1977 to make up the shortfall in premiums collected for 1974 and 1975 fiscal years. While one can speculate that the government of the day had alternative plans for making up this shortfall, the present government made a specific amount available to place the Corporation in a fully funded position. The Insurance Corporation was instructed to set all future premiums on a user-pay footing, designed to break-even each year with no further subsidies of any kind.

While the Insurance Corporation could make provision to pay back the grant over time, it would represent an onerous and unwarranted burden on the B.C. motorists in the form of significantly increased premiums. There is considerable logic in suggesting that any repayment would represent "double jeopardy" for vehicle owners. Since the majority of taxpayers are motorists (2 million vehicles in a total population of 2.8 million) they have already paid for the shortfall of premiums in 1974 and 1975 and should not be called upon to pay a second time.

In the nine years from 1976 to 1984 inclusive, the Corporation had an aggregate bottom line of a $26.1 million surplus. This represents a surplus of .5 of 1% on the total income for those eight years. It illustrates the high level of success the Corporation has achieved in meeting its mandate of operating on a break-even basis. Said another way, it is the equivalent of a family with a $25,000 annual income predicting all of its expenses in advance and having an average of $125 over at the end of each year.

4. TAXES

a) Federal Income Tax

The mandate of the Insurance Corporation is to break-even each year, and this has been achieved in most years. In the years when break-even was not achieved, a loss was recorded. Under these circumstances the payment of income tax is purely academic - there simply is no taxable income with which to be concerned.

It could be noted that income tax payable by the private sector is also probably an academic matter. This sector, collectively, has suffered underwriting losses each year for the past five, for a total of $2.25 billion in the years 1979 through 1983.

b) Provincial Premium Tax

The Insurance Corporation does not pay an automobile premium tax and this is to the direct benefit of our Autoplan policyholders. Because of the mandate that it must operate as a user-pay, non-subsidized, break-even entity, payment of such a tax would have to be passed on to B.C. motorists in the form of higher premiums.

c) Property Taxes

The Insurance Corporation pays grants equivalent to full taxes to all cities and municipalities where it owns property. In 1984 these amounted to $2,300,000.

5. PENALTY POINT PREMIUMS FOR MVA INFRACTIONS

Virtually every insurance company in North America charges an increased premium to those insureds who have been found guilty of a certain number and type of traffic violations. They have never considered this a subsidy. It is part of the legitimate income of an insurance company.

It is prudent insurance practice to recognize that those who break the laws of the road represent a greater insurance risk.

The Insurance Corporation agrees with this principle and collects a premium related to the number of penalty points a driver accumulates. Over the 10 year history of the Corporation, almost $160 million has been received in this manner, and it is those who do not break the law that are the beneficiaries in as much as all of this revenue is used to reduce basic compulsory liability and 'no-fault' accident benefit premiums.

6. SUBSIDIES IN REVERSE

Many comments have been made alleging hidden subsidies received by the Insurance Corporation. These are simply not true and in fact the reverse is the case. The Insurance Corporation makes contributions totalling over $21 million annually to the Province that no private insurance company in Canada is called upon to make.

a) The Insurance Corporation assumed the social program of providing a 25% discount on basic liability coverage to senior citizens. This discount amounted to $7.3 million in 1984.

b) The Insurance Corporation provides a discount of 25% on basic liability coverage to physically handicapped vehicle owners and this amounted to $150,000 in 1984.

c) The Insurance Corporation pays a 35% surcharge on the amount charged by the provincial hospital plan for services received by those people injured in auto accidents. This totalled $3.5 million in 1984.

d) The Insurance Corporation performed computer and other services valued at $10.3 million for the Motor Vehicle Department in 1984.

7. WAGE COMPARISONS

ICBC operates only in B.C. and is subject to labour markets here. A survey conducted by the Public Employers Council of B.C. in October, 1984 shows that the average salary in the private sector in B.C. is marginally higher than that at ICBC - $29,352 vs $28,686 for comparable positions.

Comparable positions were selected in 11 of ICBC's 13 union salary groups and averaged. Comparable job matches could not be established in two salary groups. The private sector companies surveyed included the B.C. operations of the Royal Bank, MacMillan Bloedel, AEL Microtel, Finning Tractor and IBM.

The comment has been made that ICBC pay scales are higher than the insurance industry in B.C. Whether they are or not is irrelevant. The private sector insurance industry in this province is largely one of branch office operations and does not employ a wide range of business expertise. When the Insurance Corporation requires people with skills in computer science, actuarial science, statistics, finance, accounting, administration, clerical or human resource management, the candidates are found, almost invariably, in the kinds of companies represented in the above paragraph. It is with this group that the Insurance Corporation must remain competitive.

8. INVESTMENTS

The Autoplan Fund's total investment income is used to reduce premiums for B.C. motorists. In 1984 that amounted to $128 million or an average reduction of about $70 from every policy.

In the 11 years of ICBC's existence, investment income has totalled more than three quarters of a billion dollars ($789 million), all applied to the Autoplan Fund to help reduce individual premiums.

The Insurance Corporation is unique in that its investment decisions are made here in B.C. with a "B.C. first" policy. This results in the Corporation making every effort to invest in B.C. for the benefit of the people of the province, consistent with reasonable returns from secure investments.

With total funds under investment of over $1 billion, the impact on the B.C. money market must be recognized as having definite value to the economy of the province.

9. SOLVENCY REQUIREMENTS

Among the solvency tests is the requirement that private sector insurance companies must have assets that exceed their liabilities by 15%. This is based on the mandate that their policyholders must have some protection in the event their insurance company experiences financial difficulty.

The application of this requirement to a crown corporation, backed by the resources of the province, just to put private and public companies on a theoretically equal footing, is simply unnecessary and quite inappropriate.

It would mean that ICBC would have to increase its premiums to policyholders sufficiently to collect an additional $200 million, an amount of money the need for which simply does not exist.

10. PREMIUM COMPARISONS

The discussion under Item 2, Auto Accident Comparisons, makes it clear that, for whatever reasons, British Columbia presents a significantly higher risk to an automobile insurance company than Ontario with respect to at least death and injury.

For this reason and for many others, it is impossible to make absolute comparisons between B.C. and other jurisdictions. Nevertheless, as a general guide, there is value in attempting to show what a vehicle owner must pay for similar coverage.

The Insurance Corporation each year conducts a nation-wide survey, using a leading management consulting firm. In each of the surveys, ICBC premiums have been in the bottom half despite having the highest injury rate and one of the highest fatality rates in Canada. The most recent survey follows on pages 16 and 17.

This finding is further substantiated by surveys conducted over the past years by independent third parties not connected with ICBC. Surveys conducted by the Financial Post in 1984, the Ontario Department of Insurance in 1982 and the Calgary Herald in 1981 follows on pages 18, 19 and 20.

1984 AUTO INSURANCE PREMIUMS
HOW I.C.B.C. COMPARES

[redacted] **Three year claim-free record — No under age 25 driver**

	Toronto	Montreal	Vancouver	Edmonton	Ottawa	Halifax	Victoria
ICBC			$536				$439
Allstate Insurance Company	$513	$538		$436	$391	$347	
Commercial Union	706	680		564	587	463	
Fireman's Fund	689	613		603	557	437	
Royal Insurance	749	716		629	630	480	
Zurich Insurance	675	638		510	544	397	

[redacted] **Three year claim-free record — No under age 25 driver**

	Toronto	Montreal	Vancouver	Edmonton	Ottawa	Halifax	Victoria
ICBC			$632				$519
Allstate Insurance Company	$593	$682		$502	$431	$505	
Commercial Union	830	889		729	697	558	
Fireman's Fund	796	719		711	698	535	
Royal Insurance	885	897		721	740	604	
Zurich Insurance	787	777		661	636	532	

THE COVERAGE IS $200,000 LIABILITY LIMIT, $250 DEDUCTIBLE COLLISION COVERAGE ($200 IN B.C.) AND $50 DEDUCTIBLE COMPREHENSIVE COVERAGE. DRIVE-TO-WORK MORE THAN 10 MILES EACH WAY.

MONTREAL INCLUDES $95 FOR GOVERNMENT PLAN.

THE FIVE INSURANCE COMPANIES SELECTED ACCOUNT FOR ALMOST 20% OF ALL AUTO INSURANCE IN CANADA AMOUNTING TO ABOUT $688 MILLION IN PREMIUMS ANNUALLY.

THIS SURVEY WAS CONDUCTED BY A RECOGNIZED MANAGEMENT CONSULTING FIRM ON BEHALF OF ICBC.

(SEE OVER)

1984 AUTO INSURANCE PREMIUMS
HOW I.C.B.C. COMPARES

Three year claim-free record — Principal driver—male 19 years old

	Toronto	Montreal	Vancouver	Edmonton	Ottawa	Halifax	Victoria
ICBC			$536				$439
Allstate Insurance Company	$2,330	$1,557		$1,993	$1,889	$1,979	
Commercial Union	1,628	1,428		1,320	1,344	1,083	
Fireman's Fund	1,681	1,681		1,998	1,448	1,111	
Royal Insurance	1,680	1,720		1,441	1,386	1,192	
Zurich Insurance	1,560	1,489		1,276	1,232	1,202	

Three year claim-free record — Principal driver—male 19 years old

	Toronto	Montreal	Vancouver	Edmonton	Ottawa	Halifax	Victoria
ICBC			$632				$519
Allstate Insurance Company	$2,679	$1,976		$2,410	$2,339	$2,732	
Commercial Union	1,913	1,974		1,680	1,600	1,308	
Fireman's Fund	1,950	2,049		2,431	1,674	1,355	
Royal Insurance	1,996	2,097		1,724	1,645	1,438	
Zurich Insurance	1,811	1,865		1,520	1,473	1,454	

THE COVERAGE IS $200,000 LIABILITY LIMIT, $250 DEDUCTIBLE COLLISION COVERAGE ($200 IN B.C.) AND $50 DEDUCTIBLE COMPREHENSIVE COVERAGE. DRIVE-TO-WORK MORE THAN 10 MILES EACH WAY.

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(SEE OVER)

The Financial Post, September 29, 1984

What two drivers pay

Example A:
Male, 22, single, accident-free, licensed six years, no violations, the only driver of a 1981 Plymouth Reliant for pleasure in Toronto.

Coverage
Collision — $250 deductible
Comprehensive — $50 deductible
Liability — $500,000
Premium for six months: $422

Example B:
Male, 49, married, accident-free, no violations. Wife also drives the 1983 Ford Fairmont to and from work. (Son, 18, has driver training certificate as occasional driver).

Coverage
Collision — $100 deductible
Comprehensive — $50 deductible
Liability — $1 million
Premium for six months: $283
For son: $80
Total: $363

(Examples provided by The Co-operators Group)

If the young man in the first example had experienced an accident within the previous six months and then applied for coverage, his six-month premium would be $1,112 instead of $422.

But let's assume the son in the second example had an accident with his father's car, then bought his own Plymouth Reliant. His six-month premium with the same insurance company would be $632, because he would have been, through his father, an existing policyholder.

	Co-operators Annual Premiums	ICBC Annual Premiums	
		Vancouver	Victoria
Example A	$844	$451	$370
Example B	726	609	500

RATE COMPARISONS

On March 2, 1982 the Ontario Department of Insurance released a list of auto insurance premiums charged by some of the major companies in that province.

It selected as the example a mature person, driving less than 10 miles one way to work, with a three year claim free record, using a standard vehicle two to three years old.

The coverage quoted had a $200,000 liability limit with accident benefits, $100 deductible Collision coverage and $25 deductible Comprehensive coverage.

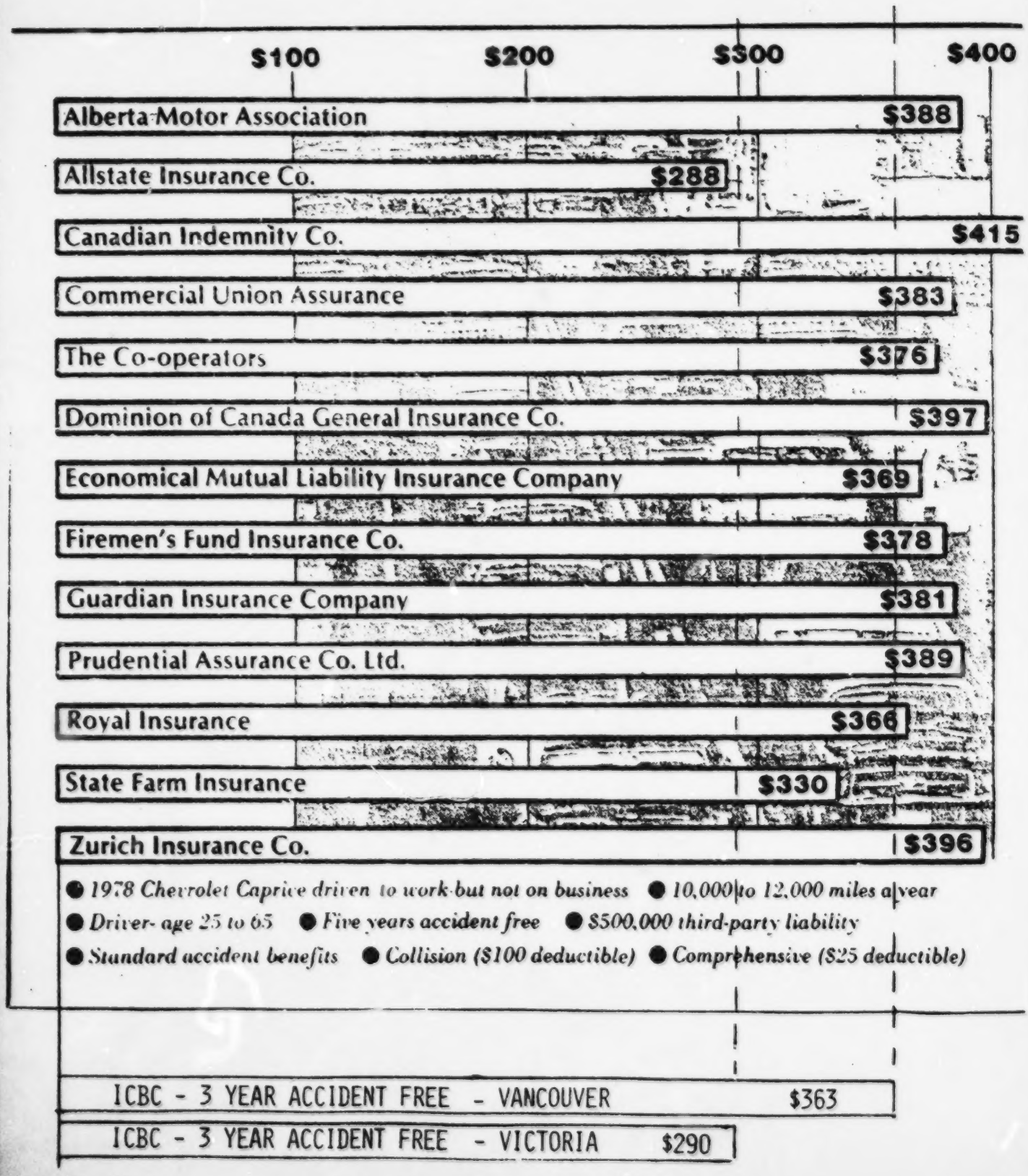
The comparative premiums are as follows:

	Toronto	Vancouver	Sarnia Ottawa	Victoria
ICBC		$ 546		$ 448
Commercial Union	$ 674		$ 598	
Fireman's Fund	625		566	
General Accident	560		533	
Royal Insurance	745		621	
Zurich Insurance	586		541	

It can be noted that the Insurance Corporation has no age limitation and no limitation on distance driven to work. The Insurance Corporation does not offer Comprehensive coverage with a $25 deductible, so used $50 deductible instead. A 1979 Chevrolet Caprice was used as the vehicle.

PUBLISHED IN THE CALGARY HERALD, JANUARY 26, 1981

1981 CALGARY/EDMONTON AUTO INSURANCE RATES

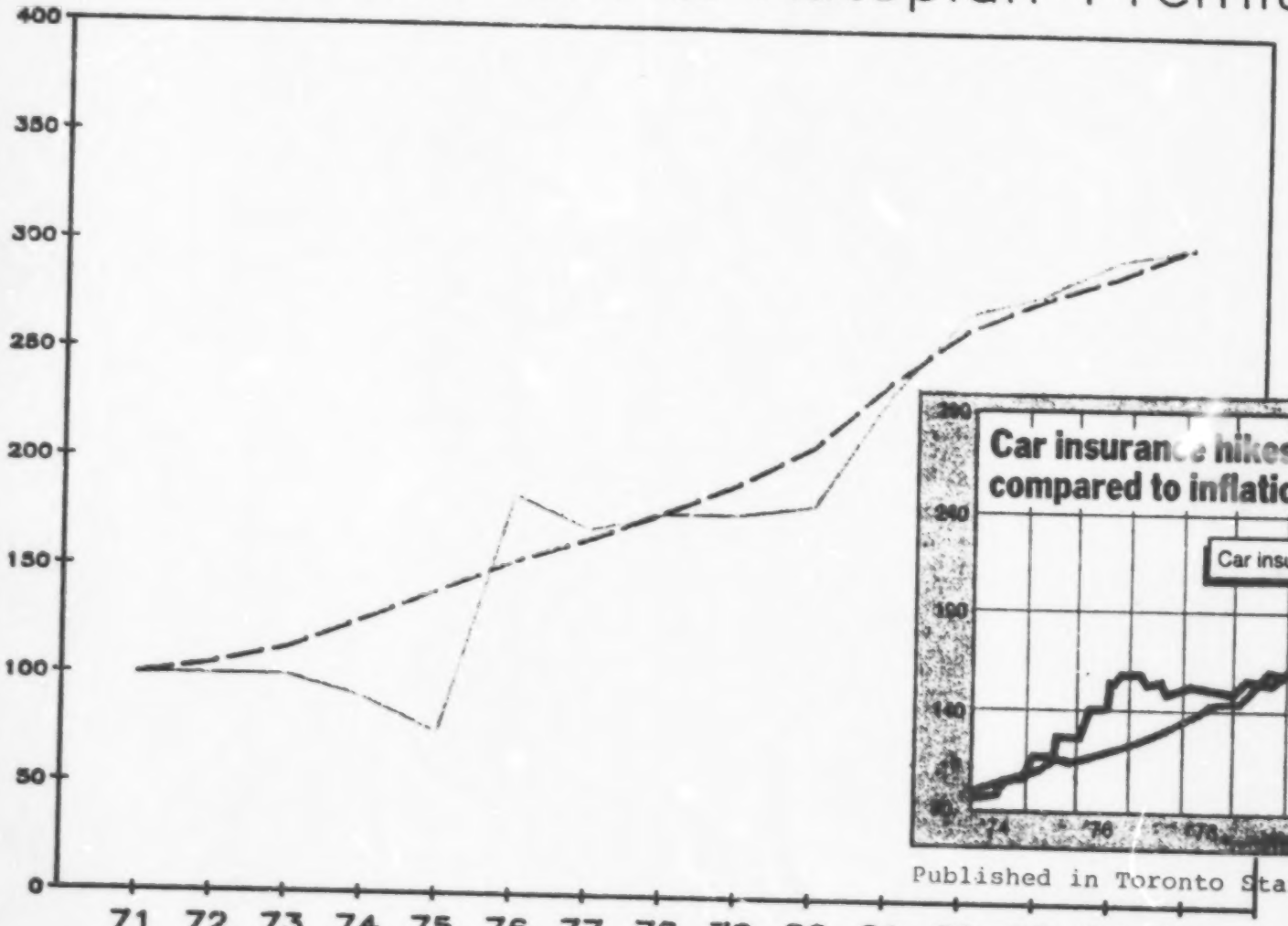

$100
$200
$300
$400
Alberta Motor Association $388
Allstate Insurance Co. $288
Canadian Indemnity Co. $415
Commercial Union Assurance $383
The Co-operators $376
Dominion of Canada General Insurance Co. $397
Economical Mutual Liability Insurance Company $369
Firemen's Fund Insurance Co. $378
Guardian Insurance Company $381
Prudential Assurance Co. Ltd. $389
Royal Insurance $366
State Farm Insurance $330
Zurich Insurance Co. $396
● 1978 Chevrolet Caprice driven to work but not on business ● 10,000 to 12,000 miles a year
● Driver- age 25 to 65 ● Five years accident free ● $500,000 third-party liability
● Standard accident benefits ● Collision ($100 deductible) ● Comprehensive ($25 deductible)
ICBC - 3 YEAR ACCIDENT FREE - VANCOUVER $363
ICBC - 3 YEAR ACCIDENT FREE - VICTORIA $290

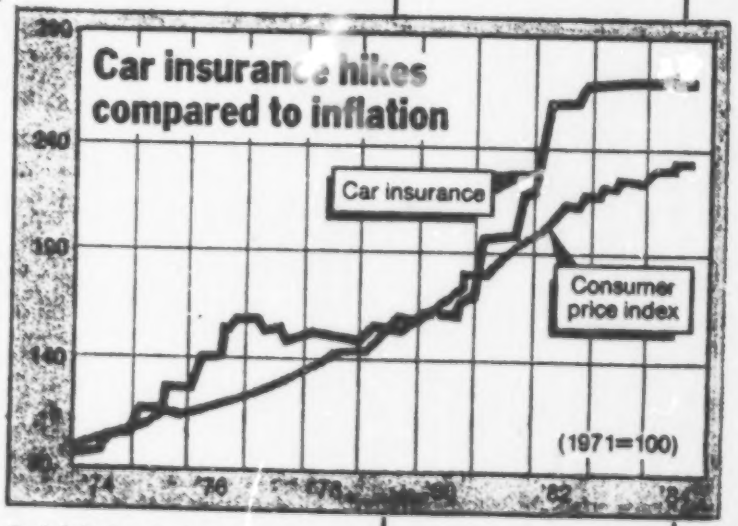
10. PREMIUM COMPARISONS - Cont'd

A decision was made in 1973 to establish the first Autoplan premium level in 1974 at 90% of the 1971 premium level in the private sector, the most recent data available to the Corporation.

It is, therefore, appropriate to track premium and Consumer Price Index increases from 1971, as displayed in the chart on page 22. With one exception in the past years, Autoplan premium increases have closely matched those of the C.P.I. This is in marked contrast to published information indicating that the private insurance sector has had premium increases in seven of the past 10 years that were substantially higher than the C.P.I.

Comparison of Growth
Vancouver CPI & Autoplan Premium





Published in Toronto Star Dec. 28/84

Premium Index and Vancouver CPI 1971=100

11. DISCRIMINATION AND THE FAIR PROGRAM

The government's 1979 decision to recognize that individual motorists should be judged innocent until proven guilty, and that they should be judged a safe driver until proven an unsafe driver, discarded the industry practice that whole groups should be charged a particular rate because of the actions of a minority of the group. Consumer groups support this action because they believe that rate discrimination for auto insurance should apply only to those factors over which the individual has some control. For example, why should a 20-year-old, with four years of accident-free driving, pay more than a 45-year-old with the same record?

The Insurance Corporation's response was to introduce the FAIR plan, replacing the rating factors of age, sex and marital status with the Claim-rated Scale. This scale allows all vehicle owners to pay a premium specifically related to their individual claims experience. This scale ranges from a four year, claim-free 35% discount, to a high placement on the scale as a result of being held liable for several claims.

12. BETTER COVERAGE AND PROTECTION

The Insurance Corporation cannot be selective in providing Autoplan insurance. It must provide basic liability and accident benefit coverage to all owners of vehicles licensed in the province.

Compulsory coverage ensures that every victim of a motor vehicle accident who has a claim against a B.C. motorist, has recourse to at least $200,000, in addition to no-fault accident benefits.

Regardless of who is at fault in an accident, ICBC pays 'no-fault' benefits for injury to occupants of the vehicle and to pedestrians or cyclists injured by that vehicle. These benefits include reasonable medical and rehabilitation expenses, subject to a limit of $100,000 for each injured person; which is at least four times higher than similar coverages provided by private insurers in Canada.

An unidentified (hit and run) claim is one in which the person responsible for damage to property cannot be identified. The basic coverage provided by ICBC includes protection for such an occurrence with a $150 deductible. The residents of six provinces, including Ontario, cannot buy this protection and it could not be bought in B.C. prior to ICBC. Alberta insurers provide the coverage with a $200 deductible and Quebec with a $250 deductible.

Protection from an uninsured motorist for property damage is provided only in B.C., Saskatchewan and Manitoba (with public insurance plans) with no deductible charged. In all provinces where there is private sector insurance a deductible is charged, ranging from $100 to $250.

The Insurance Corporation was one of the first auto insurers in Canada to introduce Underinsured Motorist Protection. This optional coverage provides extended protection against bodily injury or death for the insured who is the victim of an accident caused by a motorist who carries lower limits of insurance. The limits of the victim's own coverage apply. This coverage is valid wherever Autoplan applies.

13. UNIVERSAL COVERAGE

All four government plans, including the Insurance Corporation, have a single licensing and insuring document that virtually guarantees that every motorist resident in the province is carrying insurance. This results in two very significant benefits: All vehicle owners contribute to the Autoplan Fund to pay claims, and all residents of the province have at least minimum protection in the event of an auto-related injury.

Many jurisdictions where private sector companies operate have laws pertaining to mandatory coverage. However, because licence plates and insurance coverage in those jurisdictions are purchased (or cancelled) separately, estimates of uninsured vehicles on the road range from 10% to 20%. In Ontario, for instance, that translates into anything from 500,000 to one million vehicles being driven around the streets and highways with no insurance.

14. SOME ADVANTAGES UNIQUE TO ICBC

a) Dial-a-Claim

A single source for speedily reporting claims and making appointments at any claim centre of insured's choice.

b) Claim-Rated Scale

A premium-establishing process that recognizes and enables higher premiums to be charged to those people who cause frequent accidents and offers discounts to those who don't.

c) Agency Network

Every Autoplan insurance agent is directly connected to the central computer for instantaneous recording of every policy as it is purchased. It can be noted that in a survey of insurance agents conducted by the Insurance Agents' Association of B.C. in December of 1983, 70% of the members stated they wanted ICBC left in its present form with no changes.

d) Economic Impact

With its head office in B.C., the Insurance Corporation purchases over 80% of its office supplies and printed forms in B.C., totalling more than $5 million annually. With a head office payroll in this province of almost $40 million, a very significant consumer purchasing impact is made on the provincial economy.

e) Small Business Impact

Over 3,000 small, independent businesses, including bodyshops, towing companies, and independent adjusters receive payment for services twice monthly through the Autoplan vendor payment system.

cont....

f) Availability

Autoplan insurance is available to every B.C. resident with a registered vehicle regardless of geographic location, driving experience, claims record, age, sex or marital status. Private sector companies continue to use risk selection as a screening device and, in addition to refusing coverage to some drivers, place many motorists who do not meet company underwriting standards in special residual market funds (Assigned Risk Plans, Facility Agreements, Joint Underwriting Associations) or "substandard" companies within insurance groups. Restricted coverage and higher premiums are the usual result. Even now in British Columbia two private insurance companies are selling additional liability, collision and comprehensive insurance; but only to motorists who have been licenced for ten years and accident-free for five!

g) Single Information Base

A single source of information on all insured vehicles and claims permits better service to law enforcement agencies, superior monitoring of manufacturers, better assessment of various risks and contributes to lower expense ratios than private companies.

h) Traffic Safety

ICBC has been an equal partner with the Ministry of the Attorney General in funding the CounterAttack program since its inception. In 1981 it assumed responsibility for the school and community aspects of that program. In addition, the Corporation has been a prime mover in bringing about the co-ordination of provincial traffic safety activities and has developed and implemented numerous programs throughout the province dealing particularly with drinking and driving and seat belt wearing. The formation and continued funding of its Traffic Safety Education department and, in particular, its extensive work in the school system, are unique in North America. This work is seen as an ongoing investment in the future of British Columbia.